

Message Text

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ACTION EB-04

INFO OCT-01 SS-04 ISO-00 NSC-04 NSCE-00 INR-01 INRE-00

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 5669

C O N F I D E N T I A L SECTION 01 OF 02 PARIS 00508

LIMDIS GREENBACK

E.O. 11652: GDS

TAGS: EFIN, FR

SUBJECT: TECHNIQUE FOR REVALUATION OF FRENCH GOLD STOCK
ON BASIS OF MARKET-RELATED PRICE

REF: PARIS 00327

1. LAROSIERE, DIRECTOR OF TREASURY IN FRENCH FINANCE
MINISTRY, HAS JUST PROVIDED US FOLLOWING DETAILED
DESCRIPTION OF TECHNIQUE TO BE USED IN WRITING UP
FRENCH GOLD STOCK ON BASIS OF MARKET RELATED PRICE
AS ENVISAGED DURING MARTINIQUE CONFERENCE.

(A) PROPOSAL WILL BE SUBMITTED TO BANK OF FRANCE
BOARD FOR APPROVAL ON THURSDAY, JANUARY 9, AND REVALUA-
TION WILL FIRST BE REFLECTED ON BANK'S BALANCE SHEET
FOR THAT DATE, WHICH IS RELEASED TO PUBLIC ONE WEEK
LATER - I.E., JANUARY 16. TOMORROW MORNING ECONOMICS
MINISTER FOURCADE WILL INFORM ASSEMBLY FINANCE
COMMITTEE OF DETAILS OF OPERATION, AND FOLLOWING
APPROVAL BY BANK OF FRANCE BOARD, FRENCH GOVERNMENT
WILL MAKE PUBLIC ANNOUNCEMENT THEREOF.

(B) FOR PURPOSES OF INITIAL REVALUATION, GOLD
PRICE USED WILL BE MOST RECENT QUOTATION ON INTERNA-
TIONAL GOLD MARKET - IN PRACTICE, LONDON - PRIOR TO
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OPERATION. THIS WILL BE QUOTATION FOR EITHER YESTERDAY

OR TODAY (JANUARY 8). THIS DOLLAR PRICE WILL BE CONVERTED INTO FRENCH FRANCS AT FRANC-DOLLAR RATE QUOTED ON PARIS EXCHANGE MARKET ON SAME DAY.

(C) SUBSEQUENTLY GOLD STOCK WILL BE REVALUED EVERY SIX MONTHS - I.E., AS OF JUNE 30 AND DECEMBER 31. PRICE USED FOR THESE REVALUATIONS WILL BE AVERAGE OF QUOTATIONS ON INTERNATIONAL MARKET DURING THREE MONTHS IMMEDIATELY PRIOR TO DATE OF REVALUATION. THIS AVERAGE DOLLAR PRICE WILL THEN BE CONVERTED INTO FRENCH FRANCS AT LAST FRANC-DOLLAR RATE QUOTED ON PARIS EXCHANGE MARKET PRIOR TO DATE OF REVALUATION.

(D) FRANC PROFITS FROM REVALUATION WILL BE CREDITED TO ACCOUNT ON BOOKS OF BANK OF FRANCE ENTITLED, "RESERVE FROM REVALUATION OF GOLD STOCK." THIS ACCOUNT WILL BE ENTERED ON LIABILITIES SIDE OF BANK'S BALANCE SHEET UNDER SECTION RELATING TO CAPITAL OF BANK. IT WILL BE COMPLETELY STERILIZED, AND CONTRARY TO NORMAL RULE, WILL NOT ACCRUE TO FRENCH TREASURY. THUS OPERATION WILL HAVE NO EFFECTS ON EITHER BUDGET, MONEY SUPPLY OR ECONOMY. PROFITS OR LOSSES RESULTING FROM SUBSEQUENT SEMI-ANNUAL REVALUATIONS OF GOLD STOCK WILL BE IMPUTED TO SAME ACCOUNT.

(E) TERMS OF REVALUATION AND PROVISION ON STERILIZATION OF PROFITS THEREFROM WILL BE EMBODIED IN CONVENTION BETWEEN ECONOMICS AND FINANCE MINISTER AND GOVERNOR OF BANK OF FRANCE. CONTRARY TO PRESS REPORTS, WHICH ALLEGEDLY QUOTED FOURCADE, THIS CONVENTION WILL BE SUBMITTED TO PARLIAMENT FOR RATIFICATION DURING NEXT SESSION.

2. LAROSIERE SAID THAT TWO ALTERNATIVE TECHNIQUES HAD BEEN UNDER CONSIDERATION: THE ONE FINALLY ADOPTED AND ONE THAT WOULD HAVE INVOLVED WEEKLY REVALUATIONS BY BANK OF FRANCE ON BASIS OF LATEST GOLD PRICE. UNDER LATTER TECHNIQUE, PRICE ACTUALLY UTILIZED WOULD HAVE BEEN REDUCED BY "SAFETY MARGIN" TO MAKE ALLOWANCE FOR OFTEN ERRATIC MOVEMENTS OF FREE MARKET GOLD PRICE
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OVER SHORT TUN. (ECONOMICS MINISTER FOURCADE ACTUALLY MENTIONED THIS DEVICE TO PRESS; SEE PARIS 00327.) HOWEVER, THERE WAS NO NEED FOR SAFETY MARGIN IN CONNECTION WITH SEMI-ANNUAL REVALUATION TECHNIQUE.

3. LAROSIERE SAID THAT METHOD FOR VALUING FOREIGN EXCHANGE RESERVES OF BANK OF FRANCE WOULD ALSO BE REVISED. HERETOFORE THEY HAVE BEEN VALUED ON BALANCE

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC IMMEDIATE 5670

C O N F I D E N T I A L SECTION 02 OF 02 PARIS 00508

LIMDIS GREENBACK

SHEET OF BANK OF FRANCE AT PAR VALUES OR CENTRAL RATES FOR CURRENCIES IN QUESTION (E.G., IN CASE OF DOLLAR, 4.60414 FRANCS). FOREIGN EXCHANGE HOLDINGS WILL HENCEFORTH BE REVALUED SEMI-ANNUALLY ON BASIS OF LAST RATE QUOTED ON PARIS EXCHANGE MARKET PRIOR TO DATE OF REVALUATION FOR EACH CURRENCY HELD IN RESERVES. HOLDINGS OF SDRS WILL LIKEWISE BE REVALUED SEMI-ANNUALLY AT LAST RATE FIXED BY IMF ACCORDING TO BASKET METHOD PRIOR TO DATE OF REVALUATION.

4. IN REPLY TO OUR QUESTION, LAROSIERE SAID FRENCH HAD NO INDICATION ANY OTHER EUROPEAN COUNTRY WOULD FOLLOW FRENCH EXAMPLE ON REVALUATION OF GOLD STOCK. AT YESTERDAY'S MEETING OF EC FINANCE MINISTERS IN LONDON, FOURCADE HAD INDICATED, WITHOUT GIVING PRECISE TIMING, THAT FRANCE WOULD SHORTLY PROCEED TO REVALUATION. HIS REMARKS HAD ELICITED NO COMMENT FROM OTHER DELEGATIONS.

5. COMMENT. AT \$42.22 PER OUNCE, MULTIPLIED BY OLD CENTRAL RATE OF 4.60414 FRANCS PER DOLLAR, PRESENT VALUATION OF FRENCH GOLD STOCK IS 19,623 MILLION FRANCS. USING METHODOLOGY DESCRIBED BY LAROSIERE, WE HAVE MADE FOLLOWING ROUGH CALCULATIONS. ON JANUARY 7, GOLD

CLOSED IN LONDON AT \$169.50 PER OUNCE, AND DOLLAR
WAS QUOTED AT 4.40 FRANCS ON PARIS EXCHANGE MARKET.
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ON THIS BASIS NEW VALUATION WOULD BE ABOUT 75.3 BILLION
FRANCS AND WINDFALL PROFIT ABOUT 55.7 BILLION FRANCS.
TODAY (JANUARY 8) GOLD PRICE IN LONDON ROSE TO
\$177, AND DOLLAR FELL TO 4.39 FRANCS IN PARIS. ON
THIS BASIS, NEW VALUATION WOULD BE ABOUT 78.4 BILLION
FRANCS AND PROFIT ABOUT 58.8 BILLION FRANCS.
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